STATE OF MICHIGAN
CIRCUIT COURT FOR THE 30TH JUDICIAL CIRCUIT
INGHAM COUNTY

E. L. COX, COMMISSIONER OF INSURANCE
FOR THE STATE OF MICHIGAN,

Petitioner,

File No. 98-88265-CR

v

Hon. James. R. Giddings

MICHIGAN HEALTH MAINTENANCE
ORGANIZATION PLANS, INC., a
Michigan health maintenance organization,
doing business as OmniCare Health Plan,

Respondent.
_____/

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**REHABILITATOR'S RESPONSE
TO THE OBJECTIONS TO THE PETITION FOR APPROVAL OF THE
REHABILITATOR'S PLAN TO SELL ASSETS OF OMNICARE TO
COVENTRY HEALTH CARE**

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I. The ultimate viability of OmniCare depends upon the revenue from its Medicaid business. Because OmniCare does not qualify to receive a new Medicaid contract, it cannot continue to operate as an HMO after September 30, 2004. Therefore, the proposed sale of assets is necessary in order to obtain the maximum benefit from the HMO's assets for the members, creditors, and the public generally.

From the time that OmniCare Health Plan ("OmniCare") was first placed into rehabilitation, the Rehabilitator sought to hold the provider network intact and implement changes that would allow OmniCare to operate profitably as an HMO. The goal was to continue to provide service to the members and to generate revenue to pay off the claims of creditors. That approach depended upon OmniCare's ability to continue to operate as a Medicaid HMO under contract with the Department of Community Health (DCH). According to OmniCare's annual statement for calendar year 2003, OmniCare's total premium for 2003 was $172,578,849. Of that amount, $137,642,522 came from the Medicaid business. In other words, fully 80% of OmniCare's premium income derived from its Medicaid business. The Medicaid business is clearly essential to the prospects for successful Rehabilitation of OmniCare.

In July 2003, the Court approved a rehabilitation plan that projected full rehabilitation of OmniCare sometime in 2006. The prospect of a successful rehabilitation disintegrated when the DCH decided to rebid the Medicaid contracts. In order to receive a Medicaid contract under the DCH Invitation to Bid, a bidder must meet all applicable statutory financial requirements set forth in the Michigan Insurance Code. Invitation to Bid, Section IV-B, p 76. OmniCare fails to satisfy at least two critical statutory financial requirements. First, OmniCare has reported to the Office of Financial and Insurance Services on Form FIS 321 (December 31, 2003) that it has a ***negative working capital reserve of $13.5 million***. Therefore OmniCare is not in compliance with section 3555(b) of the Insurance Code, which requires that an HMO have adequate working

capital "which shall not be negative at any time." MCL 500.3555(b). This alone is sufficient to disqualify OmniCare from receiving a new Medicaid contract under the DCH invitation to bid.

But negative working capital is not the only reason OmniCare does not qualify for a new Medicaid contract. Section 403 of the Insurance Code requires that an HMO must be "safe, reliable, and entitled to public confidence" as a condition precedent to maintaining its authority to do business in Michigan. MCL 500.403. Section 3551(4) of the Code requires that the OFIS Commissioner consider Risk Based Capital (RBC) requirements, as developed by the National Association of Insurance Commissioners, when determining if an HMO is "safe, reliable, and entitled to public confidence" under MCL 500.403. RBC requirements are described in Insurance Bureau Bulletin 98-02. The established standard, to measure minimum needed capital given the health plan's size and risk profile is 200% RBC. OmniCare is at 0 % RBC because it has ***negative*** capital and surplus of $12.5 million, which is $23 million short of 200% RBC level.[1] For this independently sufficient reason, OmniCare does not qualify for a new Medicaid contract to take effect when its current contract expires on September 30, 2004.

As a consequence, the overriding issue for the Rehabilitator is how to capitalize to the maximum extent possible on the assets available to OmniCare. Although OmniCare does not qualify for a contract, it has members and a certificate of authority that are very valuable ***for a limited period of time***. OmniCare's membership and certificate of authority are valuable to Coventry Health Care because they will put Coventry Health Care in a position to bid for a Medicaid contract which it would not otherwise be in a position to bid for. But the value of this asset to OmniCare and its creditors is fleeting. ***After May 17, 2004, the deadline for submission of bids to DCH, the value evaporates***. The deadline originally published in the Invitation to Bid

[1] Affidavit of Judith A. Weaver, paragraph 5, attached hereto as Attachment 1.

was May 14, but DCH unilaterally changed the deadline to May 17. If OmniCare does not make the sale as proposed and the deadline passes, then DCH will simply reassign OmniCare's Medicaid members to another HMO ***and OmniCare and its creditors will receive no value in return***. This is, therefore, undeniably a case where time is of the essence to protect the interests of creditors, who are predominantly health care providers, by capitalizing on this fleeting asset.

It appears inevitable that there will eventually be a liquidation of OmniCare after its Medicaid contract expires on September 30, 2004. If this sale is approved and on May 17, 2004 Coventry Health Care successfully bids for a Medicaid contract with DCH, we can expect approximately $12.6 million from the sale to go toward satisfying the liabilities of the creditors, and the members will have continuity of service to the extent that the provide network can be preserved. If this sale is not approved before May 14,[2] then there will be no proceeds to fund payments to creditors, and the membership can be expected to lose continuity of care when DCH assigns them to a new HMO. Clearly, there is much at stake at this juncture and the Rehabilitator's decision to accept the bid from Coventry Health Care is a sound exercise of her discretion to protect the interests of the members, the creditors, and the public in general under the realities she faces. The Court should approve the Rehabilitator's decision and allow the sale to go forward without delay.

The Court may note that between now and September 30, the Rehabilitator will continue to marshal OmniCare's remaining assets, such as its commercial business, to pay its creditors. Any revenues generated from the remaining assets will be added to the proceeds of this sale to Coventry to pay OmniCare's administrative expenses and creditors. The Rehabilitator will move

[2] This is the deadline in the LOI submitted by Coventry.

the Court for conversion to liquidation and provide more detail regarding the actual payout to creditors at a later date.

II. The Rehabilitator's best and final offer process for eliciting bids was necessary, fair, and within the Rehabilitator's discretion.

A. The Rehabilitator has great discretion in dealing with the property and business of the insurer.

There is no statutory procedure prescribed in Chapter 81 for eliciting bids for the purchase of HMO assets. The Commissioner, however, is given great discretion and is statutorily empowered to "reform," "revitalize," "transform," "convert," and to "deal with the property and business of the insurer." MCL 500.8114. The Commissioner, as Rehabilitator, has wide-reaching authority and is ***vested by operation of law with title to ALL the assets of the insurer***. MCL 500.8113. A time consuming public notice process for accepting offers, as suggested by some of the objectors, is not required by Chapter 81. In fact, public notice could very well have created unwarranted concern and fear for the members and creditors causing instability in the network and jeopardizing the most vital asset of the HMO; its membership. Without question, knowledge of a potential asset sale would have created turmoil within the healthcare community in southeastern Michigan. The Commissioner, as Rehabilitator and chief officer of the Michigan Office of Financial and Insurance Services, is the regulator of HMOs, insurance companies, and other insurance related entities. As the Michigan regulator, the Rehabilitator is uniquely qualified to assess the financial viability of potential bidders. Public notice potentially would have brought parties into the process that did not have the financial wherewithal or expertise to run a successful health plan. Given the time constraints imposed by the DCH Medicaid bidding process, and the recognition that OmniCare could not secure a new Medicaid contract due to the financial prerequisites imposed by DCH, the Rehabilitator exercised her discretion and acted prudently to maximize the receivership assets for the benefit

of creditors. The level of capital needed to consummate these purchases is very high and the level of expertise needed to successfully run health plans with the membership from these health plans is extensive. Very few parties could meet both of these criteria. All interested parties that contacted the Rehabilitator or OFIS were given equal opportunity to sign confidentiality agreements until the first week in March 2004, and to submit offers until March 17, 2004. Potential buyers have approached the Rehabilitator since July 2003 about purchasing the health plan. The rehabilitation of OmniCare has certainly been no secret. Anyone could have submitted an unsolicited written offer since OmniCare was placed in Rehabilitation in July of 2001 or since MDCH announced its intention to rebid its Medicaid contract. The rehabilitations and Medicaid contract were discussed in the local media. Out-of-state firms heard about the rehabilitations and rebid of MDCH's Medicaid contract. Any firms, including local firms could have pursued the opportunity. The Rehabilitator sent Best and Final Offer letters March 9 to all interested parties that had signed confidentiality agreements and continued to be actively engaged in discussions with the Rehabilitator regarding potential purchase of the health plans. The Best and Final Offer process gave interested parties equal opportunity to submit their best offers to the Rehabilitator for final consideration before any exclusive relationships were entertained by the Rehabilitator. The Best and Final offer process allowed the Rehabilitator to make informed decisions and move forward with selected buyers. The reality presented is that there simply is not sufficient time between now and when the MDCH proposals are due to entertain offers from any new interested parties. If no sale is consummated, the membership will be redistributed to other health plans ***without compensation*** to OmniCare.

B. **The Rehabilitator's best and final bid letter was necessary and appropriate.**

Faced with the eventual reassignment of its 63,000 members to other health maintenance organizations without compensation to the receivership estate, and to preserve the maximum

value for the creditors, the Rehabilitator determined that it was necessary, and in the best interests of the members, creditors, providers, and the public to solicit offers from interested parties for the sale of OmniCare to another entity that would be eligible to bid on the Medicaid contract. A Request for Bid letter on behalf of the Rehabilitator was issued on March 9, 2004, soliciting offers from interested buyers to submit their best and final offer to the Rehabilitator for the purchase of assets of OmniCare. A representative copy of the Request for Bid letter is attached to the Rehabilitator's Petition at Tab 1.

The Request for Bid letter set forth a timeline for the bid process, and enumerated criteria that the Rehabilitator would consider when making her best judgment to determine which offer or combination of offers would best meet the needs of the creditors, members, and the public as a whole. The bid letter also stated unequivocally that all decisions on the bids were subject to the sole discretion of the Rehabilitator and would require the approval of the rehabilitation court. Section C of the Request for Bid Letter, attached to the Rehabilitator's petition as Tab 1, provided as follows:

> The rehabilitator will use her ***best judgment*** to determine which bid or combination of bids best meet the needs of the HMOs' creditors, members and the public as a whole. ***All decisions will be subject to the sole discretion of the Rehabilitator and will require approval by the rehabilitation court***....
> (Emphasis added)

The factors that were given careful consideration by the Rehabilitator in evaluating the proposed bids included:

a. Are the bids fair and equitable to the creditors, members and the public as a whole?
b. Will the bids provide full payment to the creditors?
c. How are post rehabilitation liabilities treated?
c. What assets are being acquired?
e. Commitment to employ current staff.
f. How much is being paid?
g. Operational experience and history of the bidder and its management, including

regulatory history.

h. Availability of funds to complete the transaction and any contingencies related to the availability of funds.

i. Financial reserves and solvency of the bidder and the proposed new entity, if any.

The process utilized allowed the entities and individuals who had expressed an interest in purchasing one or both of the health care plans to provide their best and final offer. This request for best and final offer was made after the individuals and entities had an opportunity to perform due diligence, review the financial records of the company, review the provider contracts, and review the operations of the entities.

C. **Confidentiality agreements were executed between all bidders and the Rehabilitator**

In order to enable the interested parties to perform the necessary due diligence, it was mutually understood and agreed that Confidentiality Agreements between all prospective bidders and the Rehabilitator would be required. The Confidentiality Agreements required the protection of non-public confidential or information proprietary in nature. It included such documents as analyses, compilations, forecasts, studies, goals and objectives, business and developmental and strategic plans, or other documents which contained or reflected confidential information. The confidentiality agreements obligated the parties to keep confidential and not disclose in any manner, without prior written consent, any confidential material, including any bid submissions. The degree to which each of the individual entities took advantage of their opportunity to conduct due diligence under the confidentiality agreement varied from entity to entity. The process did not lock any of the potential bidders into a set formula or framework for their offer. To the contrary, all were free to use their business judgment and creativity to craft the best deal possible for the health plan and the receivership estate. Accordingly, anyone who had expressed an interest in purchasing the health care plans was provided an opportunity to bid. The process was opened to asking for best and final bids from all individuals who had expressed sufficient

interest in the health care plans to enter into confidentiality agreements and conduct due diligence investigations. Bidders who had made inquiries but had not pursued discussions regarding the purchase of one or more of the health plans, or entered into a confidentiality agreement or otherwise indicated that they were interested and willing to go forward in the evaluation process were not sent requests for bids. All bid discussions with the potential bidders were done on a non-exclusive basis, which was known to all the individuals and entities with whom the matter was discussed.

On March 17, 2004, the Rehabilitator received offers from three interested parties for the purchase of the assets of OmniCare. The bidders were interested in purchasing OmniCare's Medicaid members, provider network, license to operate a health maintenance organization in Michigan and other miscellaneous assets. The Rehabilitator carefully reviewed the merits of each of the three proposed offers to determine which offer was in the best interest of OmniCare, its members, the creditors, the providers, and the public, and which offer best satisfied the criteria set forth in the Request for Bid issued by the MDCH.

D. **Coventry Health Care best satisfied the selection criteria and interests involved, and was within the Rehabilitator's discretion.**

The Rehabilitator analyzed the offers received on March 17 from the interested buyers of OmniCare. Coventry's bid was for OmniCare only. Ion and Amerigroup, which is not objecting, submitted bids for the purchase of both OmniCare and Wellness. Only Amerigroup's bid allowed for separate consideration of the purchase of OmniCare. Ion's bid was limited solely to a combined sale of OmniCare and Wellness in a single transaction. The Rehabilitator determined that the offer from Coventry Health Care of Michigan, Inc., a Michigan corporation, best satisfied the selection criteria and the interests of OmniCare, its members, the creditors, including the providers, and the public. Coventry Health Care offered to purchase OmniCare's

contract to serve the members, the health maintenance organization's certificate of authority and provider contracts for approximately $12.6 million. The Rehabilitator determined that the offer from Coventry Health Care would:

a. maximize the amount of cash available to pay the creditors of OmniCare consistent with the Rehabilitator's separate fiduciary obligation to the creditors and providers of the Wellness plan.

b. provide continuity of care to the 63,000 members of OmniCare.

c. provide that the provider agreements remain in effect on the same terms and conditions for a minimum of 12 months following the closing.

d. provide the opportunity for continued employment to some of the current OmniCare.

The Rehabilitator's sale of OmniCare's assets to Coventry Health Care under the terms and conditions set forth in the Letter of Intent is fair and equitable and in the best interest of the creditors, providers, and members of OmniCare and the public as a whole. These terms include:

1. Coventry Health Care would pay $200 multiplied by the number of active Medicaid members of OmniCare that continue their enrollment with Coventry Health Care into the contract year beginning October 1, 2004, as adjusted to reflect the actual number of Medicaid members that continue their enrollment with Coventry Health Care through December 31, 2004.

2. Coventry Health Care would acquire the HMO license.

3. Coventry Health Care commits to be in compliance with all applicable capital and surplus requirements for maintaining a Michigan health maintenance organization license by September 23, 2004. all HMO financial requirements by closing.

4. Coventry will make efforts to contract directly with providers to fill out the need for an adequate provider network.

5. Subject to the approval of the Court, neither Coventry nor its affiliates would assume any liabilities of OmniCare whatsoever under the Asset Purchase Agreement. All liabilities and obligations of OmniCare that accrue before October 1, 2004 (or such other specified effective date of the DCH Medicaid Contract, whichever is later) shall remain with OmniCare and shall be paid, discharged or otherwise resolved as part of this Court's receivership proceedings, and Coventry Health Care shall have no liability of any kind for such liabilities and obligations. The Court will retain exclusive jurisdiction to resolve any liabilities or obligations that are asserted against Coventry Health Care after the Closing.

6. Coventry Health Care commits to proceed expeditiously to consummate this transaction, including all necessary regulatory approvals from OFIS, DCH, and any other applicable statutory or regulatory approvals.

E. **Analysis of other offers.**

Coventry's bid was for OmniCare only. Ion and Amerigroup, which is not objecting, submitted bids for the purchase of both OmniCare and Wellness. Only Amerigroup's bid allowed for separate consideration of the purchase of OmniCare. Ion's bid was limited solely to a combined sale of OmniCare and Wellness in a single transaction. Ion Health only offered to purchase both TWP and OmniCare, including OmniCare's commercial business.

1. <u>The Ion offer.</u>

Ion did not offer to purchase the companies separately. Ion's offer was contingent upon acquiring the combined membership of both health plans. The Rehabilitator evaluated Ion's offer against both the joint and separate offers for OmniCare and Wellness.

The Rehabilitator's major concern with Ion's offer is that the funds necessary to complete the transaction do not currently exist (A copy of Ion's bid is attached to the objections that Ion previously filed with Court). Ion has stated that it has retained Merrill Lynch to raise the

necessary capital to complete the transaction and ultimately run a financially secure health plan. Ion has not adequately demonstrated to the Rehabilitator that the cash is readily available. In order to raise the capital, investors would most likely require Ion to demonstrate it was awarded a new Medicaid contract. Given the requirements in the Invitation to Bid, the Rehabilitator had concerns that Ion would not be successful in being awarded a contract without the funds readily available. Definitely, the transaction could not be consummated unless Ion was successful in raising the funds. If Ion fails to raise the funds, MDCH would terminate any contract it might have awarded to Ion and move the members to other HMOs ***without compensation to OmniCare or its creditors***. Ultimately, the OmniCare creditors might not be paid.

Further, Ion has no demonstrated track record in running a successful health plan. According to Ion's financial statement ending December 31, 2003 submitted to the Rehabilitator with its bid, Ion commenced business as recently as this month, April 1, 2004. Ion has no premium reported because it did not start its operations as of the filing of the financial statements. Ion has disclosed to the Rehabilitator a license for only one health plan in Pennsylvania. It is believed that its first enrollment of members also occurred just this month, April of 2004. According to Ion, the management team has experience with other health plans. However, this experience is not in operating together as the management team of Ion, the bidder.

Finally, as part of the best and final offer process, the buyers provided the Rehabilitator background information such as financial statements and biographical information. In reviewing this information, the Rehabilitator found a disclosure that was very troubling. The disclosure was of a nature that could prevent the approval of the change of control (i.e. purchase of the health plans) to Ion by the Commissioner of the Office of Financial and Insurance Services. The Coventry Health Care information did not result in similar concerns.

Although the total of Ion's offer to buy the combined membership of TWP and OmniCare at first appears to be more than the total of the two separate offers the Rehabilitator chose, that comparison is illusory and misleading. Ion's offer of $55.2 million includes an investment of $16.5 million to bring the plans into compliance with equity and working capital requirements, $3.7 million to assure sufficient working capital to Ion (see Ion's term sheet, page 1), and $2.3 million for system implementation and conversion costs. Thus, $22.5 million that Ion counts as part of its $55.2 million offer is statutorily required to qualify to submit a bid and satisfy the financial requirements of the Insurance Code. Both of the bidders that the Rehabilitator selected will also be required to satisfy the statutory financial requirements although their offers do not separately include those amounts. Thus the comparable amounts are $32.7 million from Ion compared to $50 million from the combined bids selected by the Rehabilitator.

Given that the two bids selected by the Rehabilitator total more than the combined Ion bid and given Ion's lack of readily available funds, dearth of a track record, and questionable Form A approval, the Rehabilitator's rejection of Ion was clearly right and should not be rejected.

2. Amerigroup's offer

Amerigroup made two offers. Amerigroup's offer to purchase OmniCare alone was $3 million, substantially less than the Coventry offer for OmniCare.

Amerigroup also offered to purchase OmniCare and TWP combined. This combined offer had a purchase price of $15 million for OmniCare and $25 million for TWP. While the $15 million offer for OmniCare in combination with TWP was higher than the $12.6 million offered by Coventry, TWP's part of the combined offer was $13 million less than Amerigroup offered for TWP alone. The Rehabilitator could not, consistent with her fiduciary duty to the TWP

creditors, members, providers, and the public, sacrifice $13 million available to TWP to secure $2.4 million more for the OmniCare estate. This is especially true because TWP is a 501(c)(3) corporation so any excess assets beyond those necessary to pay claims must be devoted to a charitable purpose subject to the approval of the Attorney General.

Coventry Health Care is a multi-state managed health care company focused exclusively on providing health care services for low-income families, the disabled, and the uninsured within the Medicaid programs. Coventry Health Care is a publicly traded stock corporation headquartered in Bethesda, Maryland. Coventry Health Care has demonstrated its ability to successfully provide managed health care for more than 2.4 million members in fourteen markets. At the end of 2003, Coventry Health Care had cash and investments that totaled $1.4 billion, with available cash more than adequate to complete the transaction and capital and surplus of $929 million.

III. The objections of the losing bidder Ion should be disregarded because for more than a century Michigan law has clearly provided that losing bidders have no standing to challenge the bid process.

State law is clear that a losing bidder on a public contract lacks standing and is precluded from judicially challenging the bid process and the decisions made with respect to it. Michigan law vests no rights in bidders or potential bidders on State contracts due to their lack of standing. Federal court decisions have reaffirmed this aspect of Michigan law. This is because a losing bidder is not within the class of persons intended to be benefited by the competitive bidding process for state contracts.

This long-established rule applies with even greater force in the context of this rehabilitation procedure under Chapter 81 of the Insurance Code. Clearly the focus of the Rehabilitator's obligation under Chapter 81 is to protect the interests of the members and creditors of the receivership estate and the public generally. It is ***not*** to protect the interests of

losing bidders like Ion. Just as losing bidders in a public contact case are not within the class of persons intended to be benefited by laws requiring public bidding, losing bidders in this rehabilitation proceeding are not within the class of persons intended to be protected in the rehabilitation. Furthermore, unlike the public contract cases, where statutory provisions frequently mandate a competitive bid process, there is no analogous statute requiring that the Rehabilitator base her decision on a competitive bid process or that she accept the highest bid. The Rehabilitator simply chose this bid process to protect the interests of the rehabilitation members, creditors, and the public. Moreover, the invitations to bid sent out on the Rehabilitator's behalf in this case clearly provided that: "All decisions will be subject to the sole discretion of the Rehabilitator . . ." subject to approval by this Court. Hence bidders were put on notice from the outset that the decision to accept or reject any offer was discretionary with the Rehabilitator. It follows that the objections filed by the losing bidder, Ion, must be disregarded because it lacks standing.

More than a century ago, the Michigan Supreme Court recognized the rule precluding a bidder from challenging a public agency's contracting decisions in *Talbot Paving Co v Detroit*, 109 Mich 657; 67 NW 979 (1896). In *Talbot*, the Court ruled that the plaintiff, a losing bidder, lacked standing to challenge the bid process because the City's competitive bid statute was designed to protect and benefit the public, rather than the private interests of a bidder:

> While, under the charter of Detroit, it was the duty of the city to let the contract to the lowest responsible bidder, yet this charter provision was not passed for the benefit of the bidder, but as a protection to the public. We think the rule as stated in Strong v Campbell, 11 Barb 138, is the true one, and the one which has always been adhered to by the courts. It is there stated as follows:
>
> > Wherever an action is brought for a breach of duty imposed by statute, the party bringing it must show that he had an interest in the performance of the duty, and that the duty was imposed for his benefit. But where the duty was created or imposed for the benefit

> of another, and the advantage to be derived to the party prosecuting, by its performance, is merely incidental, and no part of the design of the statute, no such right is created as forms the subject of an action. [*Talbot, supra* at 660-661 (emphasis added).]

The century-old principles in *Talbot* apply today and with equal force to the objections of the losing bidders in this rehabilitation. The Rehabilitator's invitation to bid was not intended for the protection of the bidders. It was intended to protect the interest of "the creditors, members and the public as a whole." As the Court in *Talbot Paving* explained, because the competitive bidding process is designed to benefit the public, not the bidders, a losing bidder has no standing to object.

This principle of standing was affirmed in *Detroit v Wayne Co Judge*, 128 Mich 438, 439; 87 NW 376 (1901), when the Supreme Court, called upon to review the grant of a preliminary injunction to a disappointed bidder, summarily ruled that as a bidder, complainant has no standing. The Court dismissed the lawsuit, holding that a bidder has no right to maintain an equitable action to set aside a governing body's award of a public contract.

Malan Construction Corp v Wayne Co Bd of Rd Comm'rs, 187 F Supp 937, 939 (ED Mich, 1960), reaffirmed the principle that the benefit of competitive bidding runs directly to the community, rather than to the bidder:

> Competitive bidding is not intended to benefit bidders. It is designed to protect the tax-paying public from fraud or favoritism in the expenditure of government funds. . . . The Michigan Supreme Court has held that the duty of public officials to consider honestly competitive bids runs directly to the community and that, therefore, only the public, through the taxpayer's suit, has standing to enjoin a proposed contract. **The incidental benefit received by bidders from competitive bidding does not allow an unsuccessful bidder to bring a private action.** [Emphasis added.]

The Court expressly rejected the plaintiff's argument that *Talbot* only precluded losing bidders from seeking damages, but allowed them to seek injunctive relief. 187 F Supp, at 939.

Similarly, in *City Communications, Inc v City of Detroit*, 650 F Supp 1570 (ED Mich, 1987), the plaintiff, a bidder for the City of Detroit's cable television franchise, brought an action challenging the bidding process. Despite the allegations of fraud, conspiracy, and collusion in the bid process, the court dismissed the claims finding:

> **[T]he law of Michigan gives no rights to unsuccessful bidders . . . ,**
>
> [D]isappointed bidders have no standing to challenge the award of public contracts . . . not even claims of fraud or conspiracy have been held to give unsuccessful bidders a cause of action, because honest and competitive bidding is not intended to protect the bidders, but rather is designed to protect the taxpayers from fraudulent and dishonest expenditures. **Michigan courts, therefore, hold that only the public, and not the bidder, has standing to challenge the bidding process.** [*Id.* at 1581 (emphasis added).]

In *Long Mechanical, Inc v River Rouge School District*, 1997 Mich App LEXIS 1506 (1997) the Court of Appeals confirmed that losing bidders have no standing to challenge the bid process even where they assert "fraud, injustice or illegality."

> We agree with the decision in *Great Lakes* [*Heating and Cooling, Refrigeration & Sheet Metal Corp*, 197 Mich App 312; 494 NW2d 863 (1992)] insofar as it states that we will not interfere with public bids unless there is fraud, injustice or illegality. See Berghage v City of Grand Rapids, 261 Mich 176; 246 NW 55 (1933); Leavy v City of Jackson, 247 Mich 447; 226 NW 214 (1929). However, ***we find that only taxpayers have standing to bring the cause of action and allege fraud, injustice or illegality***. In both Berghage and Leavy, taxpayers brought suit to enjoin the defendant municipalities from awarding contracts to the higher bidders. Had the issue of standing been raised in *Great Lakes*, we are confident that the Court would have found no standing for the disappointed bidders, following Michigan precedent. [Emphasis added.]

In *United of Omaha Life Ins Co v Solomon*, 960 F2d 31, 34 (CA 6, 1992), the court found no cause of action by a disappointed bidder on a state contract for administrative services relative to a life insurance program:

> Michigan statutory and case law neither requires that the lowest bidder be awarded a state contract nor creates a property interest in disappointed bidders on state contracts. [Emphasis added.]

In *Attorney General, ex rel Allis Chalmers Co v Public Lighting Comm of City of Detroit*, 155 Mich 207; 118 NW 934 (1908), the public, represented by the Attorney General, moved to restrain the Detroit Lighting Commission from entering into a contract for the installation of an electrical generating plant. The Supreme Court explained that an action such as this, on behalf of the public, was the only proper avenue for review of a governing body's decision regarding the award of a contract:

> The proceeding is the proper one to determine the question, and the only one by which any action could be taken. The public represented by the proper officer is the real complainant before the court. [*Id.* at 211. *See also Rayford v Detroit*, 132 Mich App 248, 256; 347 NW2d 210 (1984) (referencing the "disappointed bidder" rule).]

There are strong public policy reasons for prohibiting losing bidders from initiating judicial challenges to the bid process. The economic self-interest of a bidder is secondary to the interests of the creditors, members, and the public. If losing bidders such as Ion are permitted to object, they may harm the interests of the creditors, members and the public by tying up the process for significant periods of time and causing the Rehabilitator to incur additional administrative and legal expenses, all of which must be paid from the assets of the receivership estate. This is no mere conjecture. Indeed, Ion's objection proposes a complicated and involved discovery process of all the documents, many of them provided to the Rehabilitator under confidentiality agreements, involved in the bidding process followed by a review procedure supported by no legal authority whatever. Ion's approach would force the Rehabilitator to negotiate Asset Purchase Agreements with ***both*** Coventry Health Care and Ion simultaneously and would have the Court approve ***both*** agreements so that there would be two applications to

DCH for Medicaid contracts.[3] This procedure is not only unsupported by any citation of authority, it would double the work required by the Rehabilitator, the Deputy Rehabilitators, and their legal counsel. Moreover, it would completely undermine the integrity of the Rehabilitator's invitation to bid process, which contemplated selecting one winning bidder and making one bid to the DCH. The next time that the Commissioner as Rehabilitator seeks a buyer for a troubled HMO, her credibility will be severely compromised. Potential bidders may well be unwilling to bid if the bidding process is subject to complete rejection and overhaul by the Court at the demand of a losing bidder.

IV. The Rehabilitator's invitation to bid on the OmniCare assets expressly provided that "[a]ll decisions will be subject to the sole discretion of the Rehabilitator and will require approval by the rehabilitation court." The Rehabilitator exercised her discretion in accepting the bid of Coventry Health Care and the Court should not reject that decision absent allegations that the decision was "arbitrary, unjust, or in bad faith"

Clearly, the losing bidder, Ion, has no standing to challenge the bid process or the Rehabilitator's decision to select Coventry's bid. As demonstrated in the immediately preceding section of this brief, even if the losing bidder were alleging "fraud, injustice, or illegality," it lacks standing. But even where an objector has standing, unlike Ion, the case law provides that the courts will not interfere unless the decision is arbitrary, unjust, or in bad faith. There are no such allegations in this case from any party with standing to object.

In *Leavy v City of Jackson*, 247 Mich 447; 226 NW 214 (1929), the Court affirmed the lower court decision dismissing a challenge brought by taxpayers to city's award of a contract to publish newspaper notices. The Court quoted and applied the following rule:

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[3] Moreover, since DCH is not a party to this proceeding, it is not at all clear that it would even accept bids under these circumstances because, among other potential shortcomings, neither bidder would have a certificate of authority and neither would have an established provider network.

> The exercise of discretion to accept or reject bids will only be controlled by the courts when necessary to prevent fraud, injustice or the violation of a trust. The court will indulge the presumption that the authorities acted in good faith in awarding the contract. [247 Mich at 450, quoting from McQuillin on Municipal Corporations (2d Ed).]

Four years later the Court cited and followed *Leavy, supra,* in *Berhage v City of Grand Rapids,* 261 Mich 176; 246 NW 55 (1934). *Berhage* involved bids for publishing contracts entered into by the City of Grand Rapids. The trial court dismissed the claim that the city counsel's decision was arbitrary, unjust, and in bad faith and the Supreme Court affirmed in reliance on *Leavy*. That same year the Court cited and relied on *Leavy* again in *Robinson v. Saginaw*, 267 Mich 557, 255 NW 396 (1934) in affirming the circuit court's dismissal of a taxpayer's challenge to the award of city contracts for water meters in a competitive bidding process. The Court ruled: "we cannot find that the action of the city commission in accepting the bid of the larger newspaper was arbitrary, unjust, or in bad faith." *Id at* 451. The Court applied the same rule in *Bolt v. Board of Road Comm'rs*, 277 Mich 75, 79-80; 268 N.W. 817 (1936). More recently the Court of Appeals cited and followed *Leavy, supra* in *J.J. Zayti Trucking, Inc. v. Detroit*, 137 Mich App 705, 359 NW2d 201 (1984).

The vitality of this rule was reaffirmed in 1992 in *Great Lakes Heating, Cooling, Refrigeration & Sheet Metal Corp. v. Troy School Dist.*, 197 Mich App 312, 314; 494 NW2d 863 (1992). In that case the circuit court ordered the school district to open and consider a bid that had been delivered only 5 minutes after the 2 PM deadline specified in the invitation to bid. The school district subsequently awarded the contract to the untimely bidder. On appeal, the Court of Appeals reversed citing *Leavy, supra* and *JJ Zayti Trucking, supra.*

> The exercise of discretion to accept or reject bids will only be controlled by the courts when necessary to prevent fraud, injustice, or the violation of a trust. The courts will indulge the presumption that the authorities acted in good faith. *J J*

Zayti Trucking v Detroit , 137 Mich App 705; 359 NW2d 201 (1984), lv den 422 Mich 940 (1985), *Leavy v Jackson*, 247 Mich 447; 226 NW 214 (1929).

The Court went on to explain some of the policy reasons supporting this rule as follows:

> We recognize that judicial intervention in procurement necessarily results in delay and the expenditure of funds on behalf of all parties. We hold that a trial court cannot disturb the decision of a school board on a bid unless there has been some form of fraud, abuse, or illegality. See *Sea-land Services, Inc, v Brown* , 600 F2d 429 (3d Cir, 1979), *Bud Johnson Construction of Minnesota v Metropolitan Transit Comm*, 272 NW2d 31 (Minn, 1978) and *Nole & Son, Inc v Bd of Education of the City School District of Norwich,* 514 NYS2d 274; 129 AD2d 873 (1987). We find that to hold otherwise would create a floodgate of litigation which would benefit neither the public authority nor the citizens and taxpayers it is attempting to represent and serve.

The logic of these cases applies with equal force in this case. The Rehabilitator conducted a competitive bid process although she was not required to do so by any applicable law. The process that she followed allowed all persons who had expressed an interest in bidding on asset of OmniCare an equal opportunity to compete. The invitation to bid itself expressly provided that:

> The rehabilitator will use her best judgment to determine which bid or combination of bids best meet the needs of the HMOs' creditors, members and the public as a whole. All decisions will be subject to the sole discretion of the Rehabilitator and will require approval by the rehabilitation court.

As shown in the second section of this brief, the Rehabilitator conducted a careful review of the bids and exercised her discretion upon pertinent criteria. This Court ought to, as did the Courts in *Leavy, Berhage, Robinson, JJ Zayti,* and *Great Lakes* "indulge the presumption" that the Rehabilitator acted in good faith. Where, as here, the decision is discretionary and there are no allegations, let alone proof, of fraud, injustice, or violation of trust, there is no basis for this Court to reject the Rehabilitator's decision.

Moreover, the policy concerns identified by the Court of Appeals in *Great Lakes Heating, supra* squarely apply to this case. If this Court were to consider the bids de novo, the

inevitable result would be the loss of critical time and increased expenses on the part of the Rehabilitator, her Deputy Rehabilitators, and her legal counsel, all of which are expenses payable dollar for dollar from the receivership estate.

In light of the foregoing case law and the circumstances of this case in particular, the Court should deny the objections and approve the Rehabilitator's plan to sell the assets of OmniCare for the benefit if the members, the creditors, and the public generally. Unlike any other person before this Court, the Rehabilitator is uniquely situated to make this decision and completely without a personal financial stake in the outcome.

V. The vast majority of OmniCare's medical providers do not object to the assignment of their provider contracts to Coventry Health Care of Michigan.

Many of OmniCare contracts with its medical providers require the consent of the provider to assign the contracts to Coventry Health Care. Notice of the proposed contract assignment was provided to all of OmniCare's medical providers in the petition to approve this transaction.

OmniCare has hundreds of medical providers consisting of hospitals, clinics, physicians, medical equipment suppliers, and other individuals and entities that provide goods and services related to medical care and treatment of its members. Out of hundreds of medical providers, only a few have objected to the proposed assignment to Coventry Health Care and the continuation of the contracts until September 30, 2005. One provider, Detroit Medical Center (DMC), did not object to the assignment of its contract to Coventry Health Care but did object to the terms of the assignment. DMC would like assurances that its pre-rehabilitation and post-rehabilitation claims will be paid. In addition, DMC would like to terminate its contract on 150 days notice, and its objection is its notice of intent to do so.

Five of the providers that objected to the assignment of their provider agreements have indicated that if the Court orders the assignment and continuation of their contracts through September 30, 2005, they should receive the following assurances and protections:

1. The providers will be allowed to terminate their currently existing contracts pursuant to the terms and conditions on the contract starting on or after September 30, 2005.

2. The Rehabilitator will not seek an additional extension of their current contracts beyond September 30, 2005.

3. During the period of October 1, 2004 through September 30, 2005, Coventry Health Care will provide full and timely payment of all provider claims pursuant to the terms and conditions of their existing provider agreements and as required by law.

4. That the providers be allowed to terminate their contracts if Coventry Health Care does not make full and timely payment consistent with their applicable contract and Michigan law.

5. Priority payment of the provider claims from the sale proceeds.

The Rehabilitator and Coventry Health Care believe that these requests are reasonable. The Rehabilitator's proposed order approving the sale of the assets and the transfer of the provider contracts to Coventry Health Care includes provisions to guarantee providers all of the requested protections except one, priority payment from the sale proceeds.

VI. The proceeds from the sale of assets cannot legally be restricted for the benefit of the medical providers.

Five of OmniCare's providers have asked that the proceeds of the sale of the assets be restricted for the payment of the medical providers pre- and post rehabilitation claims. In recognition of their sacrifice, both the Rehabilitator and Coventry Health Care would like to

accommodate the provider's request. Michigan law, however, does not allow the Rehabilitator or the Court to grant the providers a preferential priority payment at the expense of other creditors.

The approval of the proposed transaction will result in the transfer of OmniCare's license and Medicaid members to Coventry Health Care, effective October 1, 2004. After the transfer of the assets, the Rehabilitator will move the Court for an order of liquidation under MCL 500.8101 *et seq*. The claims payment procedures under liquidation are prescribed by MCL 500.8142, which provides:

1. Claims must be paid by the type of claim in the order prescribed by MCL 500.81 42 (1).

2. All claims of the class of claims must be paid in full before the next class of claims can be paid.

3. All claims within a class of claims must be treated the same. There can be no subclasses within a class of claims.

4. The claims classes are paid in the following order:

A. Class 1 Cost and expenses of administration.

B. Class 2 Claims under policies for losses incurred including third party claims.

C. Class 3 Claims of the federal government.

D. Class 4 Claims against the insurer for liability for bodily or injury to or destruction of tangible property that are not under policies and to the extent not included in Class 1 claims, that subdue employees for services performed within one year before the filing of a petition for liquidation.

E. Class 5 Claims under neither accessible policies for unearned premium or other premium refunds and claims of general creditors.

F. Class 6 Claims of state and local governments.

G. Class 7 Claims filed late or any other claim not included in Class 8 or 9.

H. Class 8 Surplus notes and similar obligations.

I. Class 9 Claims of shareholders or other owners.

Under MCL 500.8142, the providers are general creditors of OmniCare with Class 5 claims. MCL 500.8142(1)(e). The liquidator, Commissioner Watters, cannot make a separate subclass of claims for the providers that would give them priority over the other general creditors. MCL 500.8142(1). The liquidator is required to pay in full the claims in Classes 1-4 before any money can be paid to the Class 5 claims. *Id.* Furthermore, all Class 5 claims must be paid either in full or on a pro rata basis if they're not sufficient funds to pay the claims in full. *Id.*

The Court may also note that any payment made to the providers prior to OmniCare being placed into liquidation would be a preferential payment that the liquidator would be required to recover for the benefit of all creditors. MCL 500.8128.

VII. The first amended rehabilitation plan does not force providers into non-negotiated relationships

Some of the creditors have expressed concern as to how provider relationships will be "handled on a going forward basis." They believe that they are being forced to continue to do business with Coventry Health Care without any recourse.

It is important to note that under the proposed transaction and court order the healthcare providers are not locked into a static contract. The proposed order fully anticipates that the providers will be able to renegotiate the terms of their relationship, including terms of payment, with Coventry Health Care before September 30, 2005.

The continuation of the provider contracts for 12 months after the assignment of the contracts to Coventry Health Care is essential to the success of the proposed transaction. By extending the contracts the Court will:

1. Assure that Coventry Health Care has a stable provider network so that it can bid for Medicaid contract.

2. Preclude Coventry Health Care form refusing to work was the providers to reach a mutually beneficial contract as quickly as possible.

3. Preclude the providers from extracting commercially unreasonable contract terms from Coventry Health Care based on their ability to "kill the deal" if Coventry Health Care does not concede to their demands.

4. Places both Coventry Health Care and the providers an equal footing for contract negotiations give and them a reasonable period of time to reach mutually beneficial agreements.

The Court may note that the requested continuation for the contracts shortens the total amount of time that the contracts are continued under their existing terms by 15 months. That is far shorter than the 72 months that the Court authorized the continuation of the provider contracts in approving OmniCare's First Amended Rehabilitation Plan.

VIII. Requiring medical providers to maintain their contracts with Coventry Health Care for up to 12 months does not unconstitutionally impair their contracts.

Some providers claim that an injunction preventing them from terminating their contracts with Coventry Health Care will impair their contractual rights in violation of law. They also assert that there is no legal authority for the court to extend the contracts. The providers are wrong.

The test set forth in *Linton v Commissioner of Health and Environment, State of Tennessee*, 65 F.3d 508, 517 (6th Cir 1995) provides a legal standard to determine whether or not contract rights have been impermissibly impaired by state action. As stated by the *Linton* court, the test is:

1. Is there a substantial impairment of a contract right?

2. If so, is there a "significant and legitimate public purpose behind the regulation alleged to impair the contract. . ."; and,

3. If there is, is the adjustment of rights and responsibilities based on reasonable conditions and appropriate for the public purpose of the legislation? *Id.*

In analyzing the proposed contract extension, it is important to note:

1. Laws that exist when a contract made are part of the contract as if they were expressly referred to and incorporated by its terms. *Nichols v State Administrative Board*, 338 Mich 617, 622 (1954).

2. "The primary determination of public need and character of remedy in the exercise of the police power is in the Legislature. Unless the remedy is so palpably unreasonable and arbitrary so as to needlessly invade property or personal rights as protected by the Constitution, the act must be sustained. The presumption favors validity and, if the relation between the statute and the public welfare is debatable, the legislative judgment must be accepted." *Carolene Products Co v Thomson*, 276 Mich 172, 178 (1936).

3. "Undeniably, health is a matter of state concern . . . in safeguarding the public health, the Legislature is granted a large area of discretion as to the measures to be used, it being no longer questioned that the State may interfere directly or indirectly by any of its agencies whenever public interest demands it." *City of Ecorse v Peoples Community Hospital Authority*, 336 Mich 490, 501 (1953).

4. "[T]he reservation of the reasonable exercise of the protective power of the State is read into all contracts . . . ." *Home Building and Loan Association v Blaisdell*, 290 US 398, 444; 54 S Ct 231, 242; 78 L Ed 413, 432 (1934).

5. Delaying the right to enforce a contractual remedy will not unconstitutionally impair the contract, if reasonable compensation is provided. *Joint Stock Land Bank of Charleston v Hudson*, 266 Mich 644, 646-650 (1934).

6. The State, through the exercise of its police powers, may prevent the immediate and literal enforcement of contractual obligations by a temporary and conditional restraint, where vital public interests would otherwise suffer . . . ." *Home Building and Loan Association v Blaisdell*, 290 US 398, 440; 54 S Ct 231, 241; 78 L Ed 413, 430 (1934).

7. The right to terminate a contractual relationship may be limited without unconstitutionally impairing the contract. *See*, *Block v Hirsh*, 256 US 135; 41 S Ct 458; 65 L Ed 865 (1921) [Court upheld use of police power to preclude landlords from terminating leases.]

A. Maintaining OmniCare's provider network does not impair the providers' contract rights

Factually, there can be no impairment of providers' contractual rights by the Commissioner's exercise of the authority granted by MCL 500.8101 *et seq.* *Linton*, 65 F.3d at 517. The providers' contracts cannot be impaired by a statue that was in force when the contract was made. *Oshkosh Water Works Co. v City of Oshkosh*, 187 US 437, 446; 23 S Ct 234, 237; 47 L Ed 249, 253 (1902). In fact, in *Mendel v Gardner*, 283 Ark 473, 476, 678 SW2d 759, 761 (1984), the court stated:

> The rehabilitation of insurance companies pursuant to state insolvency laws does not impair the obligation or contracts. *Neblett v Carpenter,* 305 US 297 (1983); *Lewelling v Manufacturing Woodworkers Underwriters,* 140 Ark 124, 215 SW 258 (1919).

Even if the Court's injunction could impair the providers' contract, the impairment would not be substantial. Providers are merely required to maintain their contractual relationships with OmniCare's assignee. They will provide medical services just like they did before rehabilitation. They will operate under the same contract they did before rehabilitation and they will receive

compensation at the same rates as they did before rehabilitation. The only difference is, that because of the rehabilitation and the proposed transaction the providers and other creditors have a much better chance of receiving full payment of their pre and post-rehabilitation claims. Thus, contrary to the providers' assertion, there is no impairment of their reasonable expectations under their contracts. The proposed transaction and proposed court order will allow the providers to negotiate a mutually beneficial agreement with Coventry Health Care or if after reasonable period of time they cannot reach an acceptable agreement with Amerigroup, the providers can terminate their contracts. These provisions provide sufficient safeguards to prevent a substantial impairment of the providers' contractual rights.

In addition, health care providers are engaged in a highly regulated industry. The same is true of the insurance companies that pay for their services. Thus, providers entered into their contracts with OmniCare knowing that both parties were subject to the State's regulation of their relationship. One of the known risks was that the Commissioner could place OmniCare into rehabilitation. MCL 500.3503 and MCL 500.8101(3)(f). Providers were also aware that if OmniCare was placed into rehabilitation, the Commissioner is statutorily authorized to:

- Continue the operation of OmniCare as part of a rehabilitation proceeding MCL 500.8112 and MCL 500.8114(2)
- Take such action she considers necessary and appropriate to accomplish the rehabilitation MCL 500.8114(2).
- Receive from the Court a restraining order, permanent injunction, and any other order considered necessary and proper to prevent:

> "[T]hreatened or contemplated action that might lessen the value of OmniCare's assets or prejudice the rights of its members, it creditors, shareholders, or the administration of the rehabilitation."
> MCL 500.8105(1).

Accordingly, providers cannot complain that the Rehabilitator has exercised her statutory authority to regulate their contractual relationship with OmniCare and its assignee.

Based on the facts of this case the providers' allegations of unconstitutional impairment of their contractual rights does not pass the first hurdle of the *Linton* test.

B. Even a substantial impairment of the providers' contract rights would not be a constitutional violation.

Even if the providers could prove a substantial impairment of their contract rights, there is still no constitutional violation. The State has a legitimate and significant interest in:

- Ensuring that there are sufficient financially sound HMOs to spread the risks associated with providing cost effective health care to Medicaid and commercial consumers.
- "Regulat[ing] the health delivery aspects of health maintenance organization operations for the purpose of assuring that health maintenance organizations are capable of providing care and services promptly, appropriately, and in a manner that assures continuity and acceptable quality of care." MCL 500.3513(1); and
- "[A]ssuring that HMOs operate in the interest of enrollees consistent with overall health care cost containment while delivering acceptable quality of care and services that are available and accessible to enrollees with appropriate administrative costs and health care provider incentives." MCL 500.3513(2).
- Protecting HMO members and the general public from risks associated with the uncontrolled withdrawal of providers from an HMO's provider network.
- Regulation of HMOs and their insolvency.

Since the State has a significant and legitimate public purpose for the orderly transition of OmniCare, the providers must show that the adjustments to their contractual rights are unreasonable and inappropriate to address the State's concerns. In this regard, the providers must admit that if they and OmniCare's other creditors are going to benefit from the proposed transaction, OmniCare's provider network must be maintained. The failure to do so would result in the frustration of the State's legitimate public interests and the loss of millions of dollars for the creditors.

The method used to maintain the provider network is an injunction that:

- Requires providers to maintain their relationship with OmniCare's assignee by continuing to provide medical services to its members under the terms of their pre-rehabilitation contracts.
- Requires OmniCare's assignee to pay for the medical services at the pre-rehabilitation contract rates.
- Provides for the amendment of the terms and conditions of the relationship, including the payment rates;
- Allows the judicial review of the relationship;
- Allows for judicial termination of the relationship when appropriate.

These provisions provide ample protection for the providers' interests and contractual expectations. They accomplish the State's objectives without significantly altering the providers' contractual rights. Thus, the Court's order is reasonably related to the protection of the State's interests. Accordingly, the Court's order does not unconstitutionally impair the providers' contract rights. Therefore, the providers' objections to the legality of the proposed transaction should be dismissed.

IX. The Michigan State Medical Society has no standing to object to the proposed sale of assets

The Michigan State Medical Society (MSMS) is not a creditor of OmniCare. Although it purports to represent over 14,000 physicians, it does not allege or assert that it is pursuing its objection on their behalf. In fact, most of its members are not creditors of OmniCare.

MSMS asserts that ***its*** objections are supported by Drs. Andaya and Michael. The Court may note, however, that neither Dr. Andaya nor Dr. Michael have filed individual objections to the proposed sale of assets.

Standing to assert an objection to the proposed transaction is limited to claimants, creditors, the public, and policyholders that will be affected by the rehabilitation plan. See MCL 500.8101(3). MSMS is not a real party in interest to this litigation. It has no interest in the approval or disapproval of the proposed sale of assets or the payment of creditor claims. Since it is not a real party in interest to the rehabilitation plan, the rehabilitation proceedings or OmniCare's contract with the Department of Community Health, it has no basis to assert objections to the proposed transaction. MCL 2.201(B). See also, *Michigan National Bank v Mudgett*, 178 Mich App 677, 679 (1989).

MSMS's assertion of standing pursuant to MCL 500.8101(3) as a member of the public is without merit. MSMS does not purport to represent the interests of the public. MSMS represents only physicians, most of which are not OmniCare providers and who will not be impacted by the sale of OmniCare's assets. Furthermore, of the MSMS members who are OmniCare providers, none have filed objections to the proposed transaction.

Based on the foregoing, Linda A. Watters, Commissioner of the Office of Financial and Insurance Services, and Rehabilitator of OmniCare, requests that this Court dismiss the MSMS's objections to the proposed sale.

RELIEF

WHEREFORE, the Rehabilitator respectfully requests that the Petition for Approval of the Rehabilitator's Plan to Sell Assets of OmniCare to Coventry Health Care be approved.

Respectfully submitted

Michael A. Cox
Attorney General

E. John Blanchard (P28881)
Assistant Attorney General

William A. Chenoweth (P27622)
Assistant Attorney General

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Assistant Attorney General

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Dated: April 28, 2004

STATE OF MICHIGAN
CIRCUIT COURT FOR THE 30TH JUDICIAL CIRCUIT
INGHAM COUNTY

E. L. COX, COMMISSIONER OF INSURANCE
FOR THE STATE OF MICHIGAN,

Petitioner,

File No. 98-88265-CR

v

Hon. James. R. Giddings

MICHIGAN HEALTH MAINTENANCE
ORGANIZATION PLANS, INC., a
Michigan health maintenance organization,
doing business as OmniCare Health Plan,

Respondent.
_____/

AFFIDAVIT OF JUDITH A. WEAVER

State of Michigan)
) ss
County of Ingham)

JUDITH A. WEAVER, being first duly sworn, deposes and says that:

1. She is a Deputy Commissioner of the Office of Financial and Insurance Services, and is in charge of the Supervisory Affairs & Insurance Monitoring Division.

2. She has been employed by the Office of Financial and Insurance Services for approximately 20 years.

3. Her responsibilities include: monitor the financial condition of insurance entities licensed to do business in Michigan; recommend appropriate regulatory action to the Commissioner when necessary; oversee the receivership unit; oversee consultants hired as part of the receivership proceeding, including Deputy Rehabilitators, and act as directed by the Rehabilitator; oversee the financial review of applications for licensure and make

recommendations; and oversee review of applications for approval for change of control and make recommendations.

4. She is familiar with OmniCare Health Plan ("OmniCare"), including its financial condition, and its rehabilitation before this Court.

5. She has assisted the Rehabilitator by reviewing financial reports submitted by OmniCare, including the annual financial statement for the period ending December 31, 2003. In the annual filing, OmniCare reported capital and surplus of negative $12,512,535 and a risk-based capital level of 0%. In order to meet the risk-based capital requirement as required in MCL 500.3551(4), OmniCare would need a risk-based capital level of 200%. OmniCare needed a capital and surplus level above $10,532,314 . OmniCare's capital and surplus level was deficient by $23 million . OmniCare's risk-based capital level at December 31, 2003 was in the mandatory control level as defined in Insurance Bulletin 98-02.

6. As part of the annual filing, OmniCare filed form FIS 0321 entitled Working Capital Calculation. On this form, OmniCare reported its working capital was a negative $13,509,961 . MCL 500.3555 provides that a health maintenance organization shall maintain a financial plan evaluating, at a minimum, cash flow needs and adequacy of working capital. A health maintenance organization must provide for adequate working capital, which shall not be negative at any time.

7. She has assisted the Rehabilitator in overseeing the Deputy Rehabilitators in the management of OmniCare, engaging in communication with potential buyers, participating in discussions with potential buyers, participating in the Rehabilitator's request for bid process, overseeing the due diligence process, and participating with the Rehabilitator in the process to review, analyze and evaluate the bid submissions.

8. She has read the Rehabilitator's Response to the Objections to the Petition for Approval of the Rehabilitator's Plan to Sell Assets of OmniCare to Coventry Health Care of Michigan, Inc., and to the best of her knowledge and belief, the factual allegations set forth in the Response concerning the financial reporting information, and the request for bid and selection process is true and correct.

Judith A. Weaver
JUDITH A. WEAVER

Subscribed and sworn to before me
this 28th day of April, 2004.

Stephanie Andreadis
STEPHANIE ANDREADIS
Notary Public, Eaton County, MI
(Acting in Ingham County)
My Commission Expires: 11/21/07

STATE OF MICHIGAN
CIRCUIT COURT FOR THE 30TH JUDICIAL CIRCUIT
INGHAM COUNTY

E. L. COX, COMMISSIONER OF INSURANCE
FOR THE STATE OF MICHIGAN,

Petitioner,

v

File No. 98-88265-CR

Hon. James R. Giddings

MICHIGAN HEALTH MAINTENANCE ORGANIZATION PLANS, INC., a Michigan health maintenance organization,

A.G. No. 1998053333A

Respondent.
_____/

PROOF OF SERVICE

STEPHANIE ANDREADIS, being first duly sworn, deposes and says that on April 28, 2004, she served a copy of REHABILIATOR'S RESPONSE TO THE OBJECTIONS TO THE PETITION FOR APPROVAL OF THE REHABILITATOR'S PLAN TO SELL ASSETS OF OMNICARE TO COVENTRY HEALTH CARE upon the following counsel, by UPS Next Day Air:

Patrick J. Haddad
Kerr, Russell & Weber
500 Woodward Ave, Ste. 2500
Detroit MI 48226

Floyd E. Allen
Detroit Medical Center
3990 John R, 7 Brush West
Detroit MI 48226

Leland Prince
3000 Town Center, Ste. 698
Southfield MI 48075

Joseph T. Aoun
Nuyen, Tomtishen & Aoun
640 Griswold
Northville MI 48167

A copy of said pleading is being served upon Joseph A. Fink, of Dickinson Wright, 215 S. Washington Square, Ste. 200, Lansing, Michigan, 48933, by placing same in a United States Postal Depository in the City of Lansing.

A coy of said pleading is also being telefaxed this date to Mr. Haddad at 313-961-0333, Mr. Allen at 313-887-5110, Mr. Prince at 248-945-1593, Mr. Aoun at 248-449-8775, and Mr. Fink at 487-4700.

Stephanie Andreadis
STEPHANIE ANDREADIS